

The New York Times

November 27, 2009

OP-ED COLUMNIST

Taxing the Speculators

By PAUL KRUGMAN

Should we use taxes to deter financial speculation? Yes, say top British officials, who oversee the City of London, one of the world's two great banking centers. Other European governments agree — and they're right.

Unfortunately, United States officials — especially Timothy Geithner, the Treasury secretary — are dead set against the proposal. Let's hope they reconsider: a financial transactions tax is an idea whose time has come.

The dispute began back in August, when Adair Turner, Britain's top financial regulator, called for a tax on financial transactions as a way to discourage "socially useless" activities. Gordon Brown, the British prime minister, picked up on his proposal, which he presented at the Group of 20 meeting of leading economies this month.

Why is this a good idea? The Turner-Brown proposal is a modern version of an idea originally floated in 1972 by the late James Tobin, the Nobel-winning Yale economist. Tobin argued that currency speculation — money moving internationally to bet on fluctuations in exchange rates — was having a disruptive effect on the world economy. To reduce these disruptions, he called for a small tax on every exchange of currencies.

Such a tax would be a trivial expense for people engaged in foreign trade or long-term investment; but it would be a major disincentive for people trying to make a fast buck (or euro, or yen) by outguessing the markets over the course of a few days or weeks. It would, as Tobin said, "throw some sand in the well-greased wheels" of speculation.

Tobin's idea went nowhere at the time. Later, much to his dismay, it became a favorite hobbyhorse of the anti-globalization left. But the Turner-Brown proposal, which would apply a "Tobin tax" to all financial transactions — not just those involving foreign currency — is very much in Tobin's spirit. It would be a trivial expense for long-term investors, but it would deter much of the churning that now takes place in our hyperactive financial markets.

This would be a bad thing if financial hyperactivity were productive. But after the debacle of the past two years, there's broad agreement — I'm tempted to say, agreement on the part of almost everyone not on the financial industry's payroll — with Mr. Turner's assertion that a lot of what Wall Street and the City do is "socially useless." And a transactions tax could generate substantial revenue, helping alleviate fears about government deficits. What's not to like?

The main argument made by opponents of a financial transactions tax is that it would be unworkable, because traders would find ways to avoid it. Some also argue that it wouldn't do anything to deter the socially damaging behavior that caused our current crisis. But neither claim stands up to scrutiny.